

## PROJECT OVERSIGHT REPORT

**Insurance System Replacement Project (ISRP)**  
**Health Care Authority**

**Report as of Date:**  
**April 2003**

**Project Director:** Christine Spaulding  
**MOSTD Staff:** Tom Parma

**Executive Sponsor:** Tom Neitzel

**Description:** The Health Care Authority (HCA) received ISB approval and legislative funding to replace its two separate systems that support the Public Employee Benefit Board (PEBB) and Basic Health (BH) insurance lines of business with a single vendor-supplied system. The PEBB system was developed and is operated and maintained by the Department of Personnel (DOP); the BH system was developed and is operated and maintained by HCA staff. The goal of this project is to provide a single health insurance system to support both PEBB and Basic Health insurance lines of business, provide technology to improve the use of information, and reduce the overall cost of processing.

The new insurance system is expected to improve customer service by providing more accurate and timely resolution to customer inquiries, and by improving business processes and workflows. The new system will give customers and providers the ability to perform several functions over the Internet such as: applying for insurance; updating personal information; paying premiums; and checking eligibility. It will also position the agency to comply with the federal Health Insurance Portability and Accountability Act (HIPAA) of 1996.

In addition to the intangible benefits of improved customer service, this initiative is anticipated to provide over \$1.5 million in annual benefits primarily from reduction in operational costs. The project has a five-year payback period.

The contract was awarded to Healthaxis Inc. for \$3.036 million and work began June 3, 2002. KPMG has been engaged as the external Quality Assurance (QA) vendor.

The major project phases are:

- Phase I – Requirements definition, system architecture selection.
- Phase II – Detailed application design requirements, data migration, development, test.
- Phase III – Acceptance testing, training, implementation.

Although not technically a phase of the development portion of the project, a parallel activity is the decommissioning of the insurance functions of the PEBB system at DOP.

**Technology:** The new system will make use of Sun servers running UNIX and Oracle database products.

**Life Cycle Stage:** Phase II, in progress – Detailed application design requirements, data migration, development, and test.

**Budget:** The project is on budget; it is fixed-price, deliverables-based. The budget is \$4.99 million for the entire project, including decommissioning. Of this amount, \$4.4015 million is for purchasing, tailoring, implementing, and training for the new system; \$975,000 is for the system decommissioning at DOP. As of February 28, 2003, actual expenses were \$ 2,160,024. The system hardware and software has been received and installed at DIS.

**Schedule:**

<i><b>Deliverable</b></i>	<i><b>Payment Schedule</b></i>	<i><b>Initial Delivery Schedule</b></i>	<i><b>Status</b></i>
<b>Phase I:</b>			
Contract signed		May '02	Completed - on time
Begin contractor work on analysis & planning		June '02	Completed - on time
Complete business & technical analyses (User Requirements Documents)	275,000	Sept '02	Completed – on time
<b>Phase II</b>			
Begin design, development, system testing		July '02	All began on time – system design and development took approx. 2 mos. longer
Complete process mapping, approve software requirements specifications and high level design		Dec '02	Process mapping and software requirements specs began late; completed 2/2003
Complete design, development, system testing (Major Deliverables in Mar, Apr, May, minor deliverable by Sep)	\$1,604,849	May '03	Deliverable 1 one week late; deliverables 2 & 3 rescheduled to 6/2003
<b>Phase III</b>			
Begin User Acceptance Test		Mar '03	Rescheduled to 4/2003
Complete User Acceptance Test		May '03	Rescheduled to 9/2003
Begin User Training		Mar '03	Rescheduled to 6/2003
System implemented and in production	\$804,690	June 30, 2003	Rescheduled to 10/2003
<b>Subtotal:</b>	<b>\$2,684,539</b>		
Withhold	\$441,091	December 30, 2003 (Acceptance + 120 days)	Scheduled for 120 days past full production status
<b>TOTAL:</b>	<b>\$3,125,630</b>		

**Status:** This project is approximately three months behind the original schedule. The original schedule was established in September 2001; on June 3, 2002 ISRP officially began over three

months later than originally planned. HCA and Healthaxis completed requirements definitions and software specifications, and are continuing review of the user interface prototype and application design. The original project plan has been modified from a single system deliverable to four staggered deliverables for two risk mitigation reasons: to allow concurrent development tracks, and to allow for later delivery of system functions that are not required by June 30, 2003. The data conversion files are defined, and DOP's HRISD has begun conversion testing. Detailed planning for testing and implementation is being finalized.

**Issues:**

- Schedule: The HCA feasibility study, presented to the Board in September 2000, included a 16-month project schedule running from January 2002 to April 2003. HCA returned one year later to present its investment plan that still showed a 16-month project schedule. HCA released its RFP on time but lost approximately three months when the RFP had to be reissued due to an evaluation process error; however, the original scheduled implementation date was not changed. Although HCA attempted to mitigate the delays throughout the project to meet the original target date, it has been unable to regain the lost time and has now issued a revised schedule with an early October 2003 implementation date.
- Budget/Cost: The budget for ISRP has not changed. Although the funding is scheduled to end June 30, 2003, HCA has requested a technical adjustment to its budget that would allow the project funds to be carried forward from the 01-03 Biennium to cover implementation scheduled for October 2003.
- Impact on DOP's HR project: HCA and DOP have finalized the plan to decommission the PEBB system. Because the ISRP system will not be operational by June 30, 2003, HCA must continue to run the PEBB system at DOP. DOP support personnel may not be available to transition to the Civil Service Reform / Collective Bargaining (CSR/CB) project as soon as expected. A delay of up to three months should not significantly affect DOP, but beyond that time DOP will be increasingly adversely affected.
- Executive sponsorship: HCA assistant administrator, Pete Cutler, is serving as acting administrator. The previous administrator, Ida Zodrow, left in February to take a position with the state of California. In addition, the assistant administrator for PEBB and the assistant administrator for BH are relatively new in their positions, although not new to the agency.

**Recommendation:** ISB oversight staff recommends that as part of the schedule revision, HCA and Healthaxis identify and closely monitor all activities on the critical path and aggressively mitigate any deviation. If the new October 2003 date is not achievable, HCA must determine if it can reduce the scope of deliverables due by that date. If it is determined that the new date is not achievable, HCA should begin exploring all available remedies.